

Summary of Current System

| | Pillar 1 | Pillar 2 | Pillar 3 |
|-----------------------|-----------------------------------------------------------------------|----------|----------|
| Type: | ♦ Defined-benefit | | |
| Participation: | ♦ Mandatory | | |
| Management: | ♦ Publicly-managed | | |
| Financing: | ♦ Partially-funded | | |
| Coverage: | ♦ All employees and optional for self-employed | | |
| Eligibility: | ♦ 60 years for both men and women following 20 years of contributions | | |

Problems Leading to Pension Reform

- ☐ Economic instability
- ☐ Inadequate social protection mechanism
- ☐ High inflation rate

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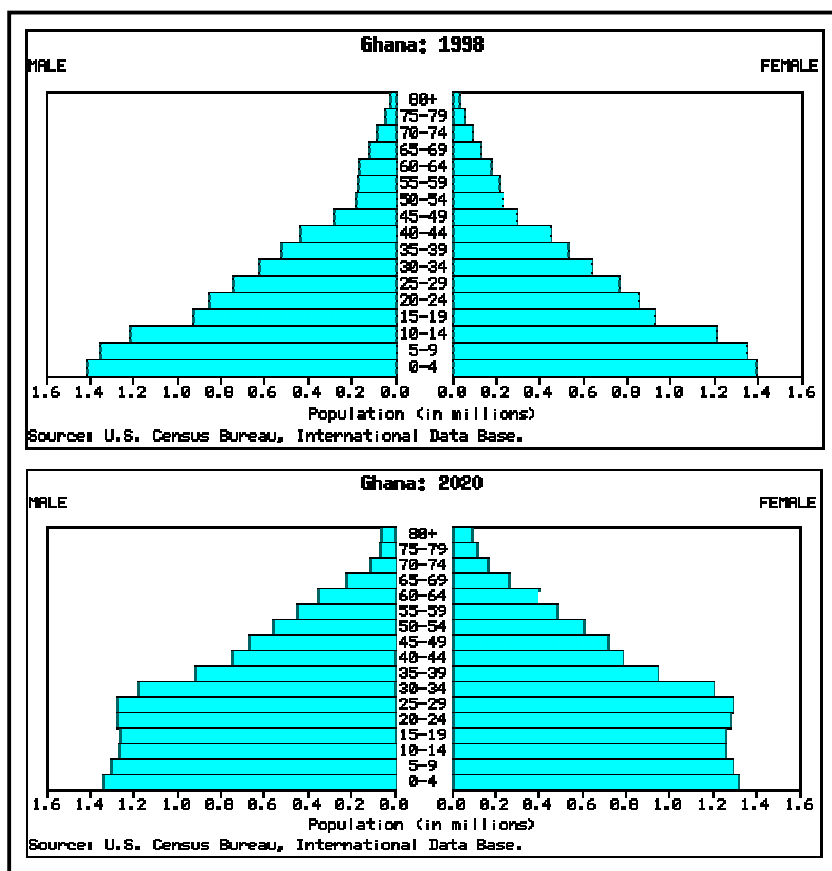
In January 1991 Ghana introduced its current pension system which replaced a provident fund scheme established in 1965. The current pension system is a defined-benefit scheme, and is partially funded. The system provides old age, invalidity and death benefits to all employed individuals, and the self-employed who have opted to affiliate with the system. Both employers and employees make contributions to the system, with 12.5 percent contributed by employers and 5.0 percent by employees.

Old age benefits are provided when the following have been met. First, individuals have reached the retirement age, which is 60 years for both men and women. Early retirement is available to individuals between 55 and 59 years, but the amount payable is lower than benefits distributed upon normal retirement. Second, individuals must have contributed at least 240 months, or 20 years into the pension system. Those who lack sufficient contributions for old age pensions are given old age grants.

Pension benefits generally range from to 50 percent to 80 percent of average salary (which is defined as an individual's average annual salary for their three highest years of earnings). Benefits are increased by 1.5 percent for each 12 months of contribution in excess of 240 months. Workers may choose the

option to receive 25 percent of their pension benefits in a lump-sum payment.

In transitioning to the new pension system, each participant of the provident fund scheme became a member of the new system. Members of the old system were permitted to continue payments to their provident fund if a lump-sum benefit had been selected as the preferred form of payment upon retirement. The option to retire was also extended to those who achieved in excess of 180 months of contributions and were at least 55 years old. To address the remaining balance in the



| SELECTED INDICATORS | | |
|----------------------------------------------------|-----------|-----------|
| Demographic | Year | |
| | 1998 | 2020 |
| Total Population (in thousands) | 18,497 | 26,516 |
| Life Expectancy at Birth (Years) | 56.82 | 63.67 |
| Total Fertility Rate (Child Born per Woman) | 4.27 | 2.29 |
| Age Dependency Ratio (percent) | 9.6 | 10.8 |
| | 1980-2000 | 2000-2020 |
| Average Annual Rate of Population Growth (percent) | 2.9 | 1.6 |

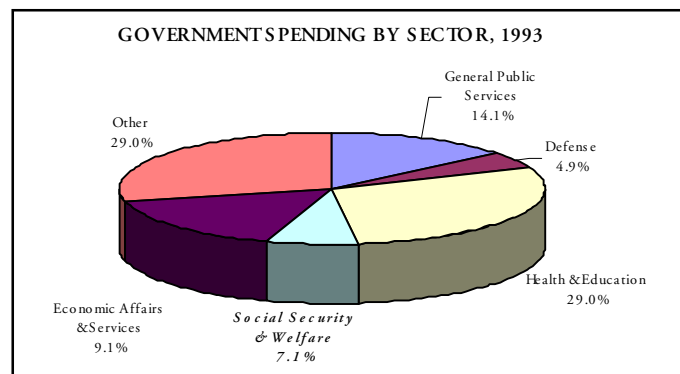
Source: U.S. Bureau of the Census, International Data Base.

| Economic | 1996 |
|------------------------------------------------------------------|-------|
| GNP (PPP in billions) ¹ | 31.4 |
| GNP Average Annual Growth Rate, 1995-1996 (percent) ¹ | 5.0 |
| GNP Per Capita (in PPP) ¹ | 1,790 |
| Inflation Rate (percent) ² | 45.6 |
| Labor Force Participation Rate (percent) ³ | 47.1 |
| Unemployment Rate, 1993 est. (percent) ⁴ | 10.0 |

Source: ¹World Bank; ²IMF; ³International Labour Office; ⁴U.S. Central Intelligence Agency.

| Pension | 1997 |
|------------------------------------------------------------------------|------|
| System Dependency Ratio, (percent) | n/a |
| Employee Contributions for Pensions (percent of earnings) ¹ | 5.0 |
| Employer Contributions for Pensions (percent of payroll) ¹ | 12.5 |
| Public Pension Spending as % of Government Spending | n/a |
| Public Pension Spending as % of GDP, 1993 ² | 0.1 |

Source: ¹U.S. Social Security Administration; ²World Bank.



Source: International Monetary Fund, Government Finance Statistics Yearbook, 1997.

provident fund, the government opted to convert provident fund balances into pension credits under the new pension system.

The Social Security and National Insurance Trust (SSNIT) administers pension benefits, and its Board of Directors guides investment policy.

Problems Leading to Pension Reform

After gaining independence in 1957, Ghana pursued pension reform primarily as a result of its affiliations with the United Nations and the International Labor Organization. Like other British colonies in Africa, Ghana faced much economic instability, which intensified the need to introduce a sustainable pension system. The provident fund scheme was intended to be a transitional mechanism. The government originally intended to introduce a pension system five years

after the initial implementation of the provident fund. However, the conversion from provident fund to pension system was not completed until 1991.

Under the provident fund scheme, pension benefit provision was an inadequate form of social protection with respect to loss of income due to termination of employment or disability. In addition, the lump-sum nature of providing retirement benefits proved to be a challenge for workers who were accustomed to having monthly earnings. Lump-sum benefits were used not for retirement but for home improvement or business ventures. The amount of the lump-sum benefit was further decreased by the economy's high inflation rates during the 1970s and 1980s. As a result, purchasing power diminished and number of retirees became impoverished. Finally, the investment policy of the provident fund was inadequate, as the fund was required to invest only in government stocks that earned 6 percent interest. This policy favored the government, which was able to inexpensively finance the deficit.

Pension Reform Efforts

Since the conversion of the provident fund system in 1991, there has been limited structural change in the pension system. The level of benefits however has increased significantly. Pension benefits increased by 21 percent in 1992 and by 14 percent in 1998. The increases are the result of improved earnings by employees and changes in benefit levels due cost of living increases.

The government is considering developing occupational pension schemes that would supplement the basic pension system. Private pension fund managers would administer these occupational pension schemes. The government anticipates that the development of supplemental occupation pensions will assist the development of the economy in the form of increased savings.

Pension Reform Efforts by Pillar

| | Pillar 1 | Pillar 2 | Pillar 3 |
|-------------------------------------------|----------|----------|----------|
| Papers issued on state of pension systems | ✓ | | |
| Formulation of proposals | ✓ | | |
| Development of draft legislation | ✓ | | |
| Introduction of legislation by parliament | ✓ | | |
| Review of legislation by parliament | ✓ | | |
| Passage of legislation by parliament | ✓ | | |
| Implementation of legislation | ✓ | | |